UNIT 2:
INDIAN ACCOUNTING STANDARD 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the objective and scope of the standard
- Define the terms used in the standard like closing rate, exchange difference, exchange rate, fair value, foreign currency, foreign operation, functional currency, monetary items, group, net investment in a foreign operation, presentation currency and spot exchange rate.
- Report foreign currency transactions in the functional currency
- Report at the ends of subsequent reporting periods foreign currency monetary and non-monetary items
- Recognise exchange differences
- Apply the translation procedures in case of change in functional currency
- Use presentation currency and translate the items into it from the functional currency
- Incorporate the results and financial position of a foreign operation on translation.
- Apply the provisions of translation in case of consolidation.
- Deal with the disposal or partial disposal of a foreign operation
- Compute tax effects of all exchange differences
- Comply with the disclosure requirements given in the standard.
Accounting for Foreign Currency Transactions

Recognition of Foreign Exchange Gains and Losses

- Monetary
- Non-Monetary Items
- Net Investment in a Foreign Operation
- Change in Functional Currency

Presentation and Disclosure

- Tax effect
- Other items

Initial Recognition at the Transaction Date

Subsequent Recognition at the end of each Reporting Period
2.1 OBJECTIVE

The objective of the Standard is to address the accounting for foreign activities which include:

- transactions in foreign currencies; or
- foreign operations.

Considering that an entity may present its financial statements in a foreign currency, the Standard also seeks to prescribe how to translate financial statements into a presentation currency.

In this context, the Standard defines **foreign currency** as a currency other than the functional currency of the entity.

1. **Functional currency** is the currency of the primary economic environment in which the entity operates.

   In this regard, the primary economic environment will normally be the one in which it primarily generates and expends cash i.e. it operates. The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency.

2. **Foreign operation** has been defined as an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

3. **Presentation currency** is the currency in which the financial statements are presented, the presentation currency may be different from the entity’s functional currency.

4. **Spot exchange rate** is the exchange rate for immediate delivery.

5. **Closing rate** is the spot exchange rate at the end of the reporting period.

6. **Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

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2.2 SCOPE

- Ind AS 21 shall be applied:
  - (a) in accounting for transactions and balances in foreign currencies, except for derivative transactions and balances covered by Ind AS 109.
    
    Foreign currency derivatives not covered by Ind AS 109 (e.g., some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard.
    
    The Standard also applies for translation of amounts relating to derivatives from functional currency to presentation currency.
  
  - (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and
  
  - (c) in translating an entity’s results and financial position into a presentation currency.

- Ind AS 21 does not apply to:
  
  - (a) hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation; Ind AS 109 should be applied for hedge accounting;
  
  - (b) presentation of cash flows from transactions in a foreign currency or to translations of cash flows of a foreign operation in the statement of cash flows (Refer Ind AS 7, Statement of Cash Flows); and
  
  - (c) long term foreign currency items for which an entity has opted for the exemption as per Ind AS 101. Such an entity may continue to apply the accounting policy as opted for such long term foreign currency monetary items.

2.3 FUNCTIONAL CURRENCY

- An entity measures its assets, liabilities, equity, income and expenses in its functional currency.

- All transactions in currencies other than the functional currency are foreign currency transactions.

  Ind AS 21 requires each entity to determine its functional currency.

- In determining its functional currency, an entity emphasises the currency that determines the pricing of the transactions that it undertakes, rather than focusing on the currency in which those transactions are denominated.
The following are the factors that may be considered in determining an appropriate functional currency (Primary indicators):

(a) the currency:
   
   i. that mainly influences sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and
   
   ii. of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

Other factors that may provide supporting evidence to determine an entity’s functional currency are (Secondary indicators):

(a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

(b) the currency in which receipts from operating activities are usually retained.

If an entity is a foreign operation, additional factors are set out in this Standard which should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:

(a) Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;

   An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it.

   An example of the latter is when the foreign operations accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

(b) Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation’s activities;

(c) Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

These factors also demonstrate whether the entity is integral to the reporting entity or not. In practice, the functional currency of a foreign operation that is integral to the parent / reporting entity will usually be the same as that of the parent / reporting entity.

Determining an entity’s functional currency depends on the facts and circumstances.
When the above indicators are mixed and the functional currency is not obvious, the management will be required to use its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management has to give priority to the primary indicators before considering the other indicators, which are designed to provide additional supporting evidence to determine an entity’s functional currency.

**Illustration 1**
*Future Ltd. sells a revitalising energy drink that is sold throughout the world. Sales of the energy drink comprise over 90% of the revenue of Future Ltd. For convenience and consistency in pricing, sales of the energy drink are denominated in USD. All financing activities of Future Ltd. are in its local currency (L$), although the company holds some USD cash reserves. Almost all of the costs incurred by Future Ltd. are denominated in L$. What is the functional currency of Future Ltd.?*

**Solution**
The functional currency of Future Ltd. is L$ looking at the primary indicators. The facts presented indicate that the currency that mainly influences the cost of producing the energy drink is the L$. As stated in the fact pattern, pricing of the product in USD is done for convenience and consistency purposes; there is no indication that the sales price is influenced by the USD.

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**Illustration 2**
*Small India Private Limited (Small), a subsidiary of Big Inc., takes orders from Indian customers for Big Inc’s merchandise and then bills and collects for the sale of the merchandise in Rupees. Small also has a local warehouse in India to facilitate timely delivery and ensures that it remits to its parent all cash flows that it generates as the operations of Small are primarily financed by Big Inc. Big Inc is based out of US and has its functional currency as USD. What is Small’s functional currency?*

**Solution**
Small, although based in India with its cash flows generated in India, is essentially a “pass through company” established by its parent. Small is totally reliant on Big Inc. for financing and goods to be sold, despite the fact that goods are sold within India and in INR. Therefore, Small is not a self-contained entity in India, rather an entity that is dependent on its parent.

Due to this dependence of Small on its parent company, it can be said that the primary economic environment for Small is that of US and thus, its functional currency should also be USD.

Hence all the transactions of Small which are denominated in any currency other than USD should be recorded in USD at the spot rate and any changes in the exchange rate would result in an exchange gain or loss to be taken to the statement of profit or loss.

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Illustration 3

A is an Oman based company having a foreign operation, B, in India. The foreign operation was primarily set up to execute a construction project in India. The functional currency of A is OMR.

78% of entity B’s finances have been raised in USD by way of contribution from A. B’s bank accounts are maintained in USD as well as INR. Cash flows generated by B are transferred to A on a monthly basis in USD in respect of repayment of finance received from A.

Revenues of B are in USD. Its competitors are globally based. Tendering for the construction project happened in USD.

B incurs 70% of the cost in INR and remaining 30% costs in USD.

Since B is located in India can it can presume its functional currency to be INR?

Solution

No, B cannot presume INR to be its functional currency on the basis of its location. It needs to consider various factors listed in Ind AS for determination of functional currency.

Primary indicators:

1. the currency that mainly influences
   (a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
   (b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. Other factors that may provide supporting evidence to determine an entity’s functional currency are (Secondary indicators):
   (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
   (b) the currency in which receipts from operating activities are usually retained.

3. If an entity is a foreign operation, additional factors set out in Ind AS 21 should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:
   (a) Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;
   (b) Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation’s activities;
   (c) Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it.
(d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

On the basis of additional factors mentioned in point 3 above, B cannot be said to have functional currency same as that of A Ltd.

Hence primary and secondary indicators should be used for the determination of functional currency of B giving priority to primary indicators. The analysis is given below:

- Its significant revenues and competitive forces are in USD.
- Its significant portion of cost is incurred in INR. Only 30% costs are in USD.
- 78% of its finances have been raised in USD.
- It retains its operating cash flows partially in USD and partially in INR.

Keeping these factors in view, USD should be considered as the functional currency of B.

Illustration 4

S Ltd is a company based out of India which got listed on Bombay Stock Exchange in the financial year ended 31\textsuperscript{st} March, 20X1. Since then the company’s operations have increased considerably. The company was engaged in the business of trading of motor cycles. The company only deals in imported Motor cycles. These motor cycles are imported from US.

After importing the motor cycles, these are sold across India through its various distribution channels. The company had only private customers earlier but the company also started corporate tie-up and increased its customer base to corporates also. The purchase of the motor cycles are in USD because the vendor(s) from whom these motor cycles are purchased those are all located in US.

All other operating expenses of the company are incurred in India only because of its location and they generally happen to be in INR.

Currently, its customers are both corporate and private in the ratio of 70:30 approximately. The USD denominated prices of motor cycles in India are different from those in other countries.

The company is also expecting that in the coming years, its customers base will increase significantly in India and the current proportion may also change.

Currently, the invoices are raised to the corporate customers in USD for the purpose of hedging. However, private customers don’t accept the same arrangement and hence invoices are raised to them in INR.

What would be the functional currency of this company?
Solution

The functional currency of S Ltd is INR.

Following factors need to be considered for determination of functional currency:

Primary indicators
1. the currency that mainly influences
   (a) sales prices for its goods and services. This will often be the currency in which sales
   prices are denominated and settled; and of the country whose competitive forces and
   regulations mainly determine the sales prices of its goods and services.
   (b) labour, material and other costs of providing goods and services. This will often be the
   currency in which these costs are denominated and settled.

2. Other factors that may provide supporting evidence to determine an entity’s functional
   currency are (Secondary indicators):
   (a) the currency in which funds from financing activities (i.e. issuing debt and equity
   instruments) are generated; and
   (b) the currency in which receipts from operating activities are usually retained.

Primary and secondary indicators should be used for the determination of functional currency of
S Ltd. giving priority to primary indicators.

The analysis is given below:

Ind AS 21 gives greater emphasis to the currency of the economy that determines the pricing of
transactions, as opposed to the currency in which transactions are denominated.

Sales prices for motor cycles are mainly influenced by the competitive forces and regulations in
India. The market for motor cycles depends on the economic situation in India and the company
is in competition with importers of other motor cycle brands.

Even though 70% of the revenue of the company is denominated in USD, Indian economic
conditions are the main factors affecting the prices. This is evidenced by the fact that USD
denominated sales prices in India are different from USD denominated sales prices for the same
motor cycles in other countries.

Management is able to determine the functional currency because the revenue is clearly
influenced by the Indian economic environment and expenses are mixed.

On the basis of above analysis, INR should be considered as the functional currency of the
company.

2.3.1 Currency of a Hyperinflationary Economy as a Functional Currency

An entity cannot adopt a functional currency other than that determined in accordance with this
Standard.
If the functional currency of an entity is the currency of a hyperinflationary economy, it cannot avoid restatement in accordance with Ind AS 29 by selecting some other currency as its functional currency.

### 2.4 ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS

#### 2.4.1 Initial Recognition at the Transaction Date

- A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency (i.e., a currency other than the functional currency of the entity), including transactions arising when an entity:
  - buys or sells goods or services whose price is denominated in a foreign currency;
  - borrows or lends funds with amounts denominated in a foreign currency; or
  - otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

- A foreign currency transaction is initially recorded by translation in the entity’s functional currency at the exchange rate on the transaction date.

  For practical reasons, a rate that approximates the actual exchange rate is often used.

  **Example**

  An average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period.

  However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

#### 2.4.2 Monetary vs Non-Monetary Items

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Monetary items</th>
<th>Non-monetary item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Units of currency</td>
<td>Units of currency held and assets and liabilities to be received or paid are in a fixed or determinable number of units of currency.</td>
<td>There is no fixed or determinable number of units of currency.</td>
</tr>
</tbody>
</table>

- **Examples of monetary items** include:
  - pensions and other employee benefits to be paid in cash;
  - provisions that are to be settled in cash;
  - lease liabilities;
  - cash dividends that are recognised as a liability;
contract to receive (or deliver) a variable number of the entity’s own equity instruments or a variable amount of assets in which the fair value* to be received (or delivered) equals a fixed or determinable number of units of currency.

Most debt securities are considered as monetary items because their contractual cash flows are fixed or determinable.

Note: Fair value is the price that would be recovered to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Examples of non-monetary items include:

- amounts prepaid for goods and services and income received in advance, on the basis that no money will be paid or received in the future;
- goodwill;
- intangible assets;
- inventories;
- property, plant and equipment;
- right-of-use assets;
- provisions that are to be settled by the delivery of a non-monetary asset.

2.4.3 Subsequent Recognition at the end of each Reporting Period

At the reporting date, assets and liabilities denominated in a foreign currency are translated as follows:

(a) monetary items are translated at the exchange rate at the reporting date i.e., closing rate;

(b) non-monetary items measured at historical cost are not translated / restated; instead they remain at the exchange rate at the date of the transaction; and

(c) non-monetary items measured at fair value in a foreign currency are translated at the exchange rate on the date the fair value was determined.

The carrying amount of the item is determined applying the relevant Accounting Standard.

For example, Property, plant and equipment may be measured at fair value or historical cost as per Ind AS 16, Property, Plant and Equipment.

The carrying amount so determined, be it on the basis of historical cost or fair value, if in foreign currency, is translated into the functional currency in accordance with this Standard.

In some cases, the carrying amount of items is determined by comparing two or more amounts e.g.:

- Inventories - measured at lower of cost and net realisable value.
Asset subject to impairment loss - lower of an asset’s carrying amount and its recoverable amount.

If such an asset is non-monetary and measured in a foreign currency, the carrying amount is determined by comparing:

(a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e. the rate at the date of the transaction for an item measured in terms of historical cost); and

(b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g. the closing rate at the end of the reporting period).

The above may result in an impairment loss being recognised in the functional currency but not in the foreign currency, or vice versa.

Where a country has multiple exchange rates, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

### 2.4.4 Recognition of Foreign Exchange Gains and Losses

- Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

- When the transaction occurs and settles within the same accounting period, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference is recognised in each period till settlement date based on change in exchange rates during each period.
2.4.4.1 Monetary Items

Exchange differences arising on the settlement of monetary items or on translating monetary items are recognised in profit or loss, except:

(i) for accounting of exchange difference as required by application of hedge accounting under Ind AS 109. For example - Ind AS 109 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge should be recognised initially in other comprehensive income to the extent that the hedge is effective;

(ii) for monetary items that in substance form part of the reporting entity’s net investment in a foreign operation (discussed below);

(iii) for long-term foreign currency monetary items in case the entity has exercised the option for recognising exchange differences on such items in equity (discussed below).

2.4.4.2 Non-Monetary Items

- Ind AS requires certain gains and losses to be recognised in other comprehensive income.

  For example, revaluation gain or loss on property, plant and equipment is recognised in other comprehensive income as per Ind AS 16. When such an asset is measured in a foreign currency and its revalued amount is translated as per this Standard using the rate at the date the fair value was determined, the resulting exchange gain or loss is also recognised in other comprehensive income.

- If the gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognized in profit or loss.

2.4.4.3 Net Investment in a Foreign Operation

- Net investment in a foreign operation is the amount of the reporting entity’s interest in the net assets of that operation.

- A monetary item receivable from or payable to a foreign operation may form part of the net investment in a foreign operation if the settlement of the monetary item is neither planned nor likely to occur in the foreseeable future.

A loan to a foreign entity which is repayable on demand might seem to be a short-term item, rather than part of capital. However, if there is demonstrably no intent or expectation to demand repayment (eg, the short-term loan is getting rolled over continuously, whether or not the the foreign subsidiary is able to repay it), the loan has the same economic effect as that of a capital contribution.

On the other hand, when there is a long-term loan with a fixed maturity period (say, 10 to 15 years) it does not automatically qualify to be treated as being part of the net investment simply because it is of a long duration, unless management has expressed its intention to renew the loan at maturity and accordingly, the period of repayment is not foreseeable.
It lies on the management to document its intention to renew by auditable evidence, such as board minutes. Otherwise, in the absence of management’s intention to renew, the loan’s maturity date implies that its settlement is planned in the foreseeable future.

- Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payables.
- Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation (i.e. a subsidiary, associate or joint venture) should be treated as follows:
  - Such exchange differences are recognised in profit or loss in the separate financial statements of the reporting entity and/or the individual financial statements of the foreign operation, as appropriate:
    - If such an item is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation’s individual financial statements.
    - If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity’s separate financial statements.
    - If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity’s separate financial statements and in the foreign operation’s individual financial statements.
  - In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a subsidiary, associate or joint venture), such exchange differences are recognised initially in other comprehensive income and then reclassified from equity to profit or loss on disposal of the net investment.

**Illustration 5**

Functional currency of parent P is EURO while the functional currency of its subsidiary S is USD. P sells inventory to S and a transaction for the same was made for USD 300 during the year. At the year end, a balance of the same amount is outstanding as receivable from S. It has been observed that such balance amount has been continuing as receivable from S year on year and even though the payments in respect of these balances are expected to be received in the foreseeable future but if we look at the year-end then we see this balance as outstanding every year.

In addition to the trading balances between P and S, P has lent an amount of USD 500 to S that is not expected to be repaid in the foreseeable future. Should the exchange difference, if any, be recognised in the profit and loss?
Solution

The exchange gain or loss will arise in the books of accounts of P in respect of its trading balance with S and the same should be recognised in profit or loss. This being a balance for in the nature of trade receivable for P, it would not be considered as its net investment in a foreign operation (i.e. S).

The amount lent by P should be regarded as its net investment in S (i.e foreign operation). Thus, the exchange gain or loss incurred by P on the USD 500 loan should be recognised in profit or loss in P’s separate financial statements and in other comprehensive income in its consolidated financial statements.

Illustration 6

Modifying the above illustration, suppose that for tax reasons, the ‘permanent’ funding (i.e. loan amount) extended to S is made via another entity in the group, T, rather than from P directly. That is, on the directions of P, T gives the loan to S. T is also a subsidiary of P. Where should the exchange difference, if any, be recognised?

Solution

Any exchange difference in respect of the loan is recognised in other comprehensive income in the consolidated financial statements because from the group’s point of view the funding relates to an investment in a foreign operation. This is the case irrespective of the currency in which the loan is denominated. So if the loan is denominated in T’s functional currency, and this is different from that of S, then exchange differences still should be recognised in other comprehensive income in the consolidated financial statements.

2.4.5 Change in Functional Currency

- Once an entity has determined its functional currency, it is not changed unless there is a change in the relevant underlying transactions, events and conditions.
• If circumstances change and a change in functional currency is appropriate, then the change is accounted for prospectively from the date of the change.

**For example**, a change in the currency that mainly influences the sales price of goods and services may lead to a change in an entity’s functional currency.

• For accounting the effect of a change in functional currency prospectively:
  ♦ All items are translated into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.
  ♦ Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.
  ♦ Exchange gain or loss from long-term monetary items accumulated in equity (where such option is exercised) are not transferred to profit or loss immediately on change of the entity’s functional currency; the balance would be transferred to profit or loss as per the manner provided by the option.

• Since entities prefer to present financial statements in their functional currency, a change in functional currency may be accompanied by a change in presentation currency. The choice of presentation currency represents an accounting policy, and any change should be applied retrospectively in accordance with Ind AS 8, unless impracticable. This means that the change should be treated as if the new presentation currency had always been the entity’s presentation currency, with comparative amounts being restated into the new presentation currency.

### 2.5 USE OF A PRESENTATION CURRENCY OTHER THAN THE FUNCTIONAL CURRENCY

#### 2.5.1 Translation to the Presentation Currency

• An entity measures items in its financial statements; but it may decide to present its financial statements in a currency or currencies other than its functional currency.

  **For example**, an entity with INR functional currency may choose to present its financial statements in US Dollar because of its reporting requirement in US.

• There can be situations wherein a group comprises operations with a number of functional currencies. Under Ind AS 21, there is no concept of a “group” functional currency. Rather the group has a presentation currency only. Each entity in the group prepares financial statements in its own functional currency and translates these financial statements into the group’s presentation currency (if different) for consolidation purposes.
The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency as follows:

(a) **assets and liabilities** for each balance sheet presented (i.e., including comparatives) are translated **at the closing rate** at the date of that balance sheet;

(b) **income and expenses** are translated at exchange rates at the dates of relevant transactions; **average rates** for the period if often used if they are a reasonable approximation;

(c) all **resulting exchange differences** should be **recognised in other comprehensive income** as they have little or no direct effect on the present and future cash flows from operations and are presented in a separate component of equity (generally referred to as the foreign currency translation reserve or currency translation adjustment) until disposal of the foreign operation;

(d) cash flows are translated at exchange rates at the dates of the relevant transactions, although an appropriate average rate may be used.

When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognized as a part of, non-controlling interest in the consolidated balance sheet.

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency as follows:

(a) all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that

(b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

When an entity’s functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with Ind AS 29 before applying the translation method set out above, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy.

### 2.5.2 Summary of the Approach in respect of Translation

The following is a summary of the approach under Ind AS 21 in respect of restatement/translation:

- **Determine the functional currency of the entity** - each entity, whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a
subsidiary or branch) should determine its functional currency. Foreign currency transactions (i.e., transactions not in entity’s functional currency) are translated into the entity’s functional currency at the transaction date.

- A reporting entity may comprise branches, subsidiaries, associates or joint ventures. The functional currency of each entity should be determined separately which may or may not be the same as that of the reporting entity.

- Translation of assets and liabilities denominated in foreign currency at the reporting date - At the reporting date, assets and liabilities denominated in foreign currency are translated into functional currency as follows:
  - **Monetary items**: at the exchange rate at the reporting date i.e. closing rate.
  - **Non-monetary items measured at historical cost**: not translated/ restated.
  - **Non-monetary items measured at fair value**: at the exchange rate of the date of fair value.

- The Standard permits an entity to present its financial statements in any currency (or currencies). Accordingly, the financial statements of the parent, branches, subsidiaries, associates and joint ventures are required to be translated into the presentation currency of the Group (presentation currency of the parent entity) by any of the following two methods:

  **Step by step method**: Financial statements of foreign operations are translated into functional currency of any intermediate parent which is then translated into functional currency (or presentation currency, if different) of the ultimate parent.

  **Direct method**: Financial statements of the foreign operations are translated into functional currency (or presentation currency, if different) of the ultimate parent.

Overall result is the presentation of the financial statements of the Group (i.e. the consolidated financial statements) in the functional currency (or presentation currency, if different) of the Group (parent entity).

### 2.6 TRANSLATION OF FOREIGN OPERATIONS

- The guidance provided on determining an entity’s functional currency equally applies to determine the functional currency of a foreign operation of the entity.

- Effectively, the translation procedures those for translating foreign operations are the same as those followed when an entity presents its financial statements in a presentation currency that is different from its functional currency:

  (a) assets and liabilities are translated at the exchange rate at the reporting date;

  (b) items of income and expense are translated at exchange rates at the dates of the relevant transactions, although appropriate average rates may be used;
(c) the resulting exchange differences are recognised in other comprehensive income and are presented in a separate component of equity (generally referred to as the foreign currency translation reserve or currency translation adjustment) until disposal of the foreign operation; and

(d) cash flows are translated at exchange rates at the dates of the relevant transactions, although an appropriate average rate may be used.

- In addition to the exchange difference as stated above, the foreign currency translation reserve may include exchange differences arising from loans that form part of the parent’s net investment in the foreign operation and gains and losses related to hedges of a net investment in a foreign operation.

### 2.7 DIFFERENCE IN THE REPORTING DATES

When there is difference in the year end of foreign operation and that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity’s financial statements. When such financial statements are not prepared, Ind AS 110 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with Ind AS 110. A similar approach is used in applying the equity method to associates and joint ventures in accordance with Ind AS 28, *Investment in Associates and Joint Ventures*.

### 2.8 INTRA-GROUP TRANSACTIONS

- Although intra-group balances are eliminated on consolidation, any related foreign exchange gains or losses will not be eliminated. This is because the group has a real exposure to a foreign currency since one of the entities will need to obtain or sell foreign currency in order to settle the obligation or realise the proceeds received.

- Accordingly, in the consolidated financial statements of the reporting entity, the exchange difference arising on such intra group transactions is recognised in the statement of profit or loss account, unless it arises from a monetary item that forms part of a reporting entity’s net investment in a foreign operation in which case it is taken to other comprehensive income.

- A Group may have intra-group transactions like sale and purchase of various assets such as property, plant and equipment, intangible assets or inventory. These transactions could result in intra-group profits or losses. At the time of consolidation, these profits / losses are eliminated.
until the profit or loss is realized i.e. when the asset is sold outside the group, depreciated, amortised or written off as per the requirements of Ind AS 110. The elimination of intra-group profits / losses arising from such transactions, like sales between entities that are consolidated, should be based on the spot rate i.e. the exchange rate of the date of the sale.

Example

Parent P has USD as its functional currency and Subsidiary S has Euro as its functional currency. P, whose reporting date is 31\textsuperscript{st} March, lends USD 100 to S on 30\textsuperscript{th} September, 20X1. S converted the loan amount received into Euro on receipt.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Date} & \textbf{Particulars} & \textbf{Credit (EURO)} \\
\hline
30\textsuperscript{th} September, 20X1 & Bank A/c & 150 \\
20X1 & To Intra-group payable & 150 \\
 & \textit{(To recognize intra-group loan)} & \\
31\textsuperscript{st} March, 20X2 & Exchange loss A/c & 50 \\
 & To Intra-group payable & 50 \\
 & \textit{(To recognize exchange loss on intra-group loan)} & \\
\hline
\end{tabular}
\end{table}

In S’s second entry, the liability is remeasured at 31\textsuperscript{st} March, 20X2 and a translation loss is recorded.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Date} & \textbf{Particulars} & \textbf{Debit (USD)} \\
\hline
30\textsuperscript{th} September, 20X1 & Intra group receivable & 100 \\
 & To Cash & 100 \\
 & \textit{(To recognize intra-group loan on issue)} & \\
\hline
\end{tabular}
\end{table}

On consolidation at 31\textsuperscript{st} March, 20X2, the receivable and payable (in respect of Intra-group receivable and payable) will be eliminated. However, an exchange loss equivalent to EURO 50 for the year ended 31\textsuperscript{st} March, 20X2 will remain on consolidation. This is appropriate because S will need to obtain USD in order to repay the liability. Therefore, the group has a foreign currency exposure. The exchange loss will be taken to consolidated profit or loss, unless the loan forms part of P’s net investment in S in which case it will be transferred to other comprehensive income at the time of consolidation.
Illustration 7

The functional and presentation currency of parent P is USD while the functional currency of its subsidiary S is EURO. P sold goods having a value of USD 100 to S when the exchange rate was USD 1 = Euro 2. At year-end, the amount is still due and the exchange rate is USD 1 = Euro 2.2. How should the exchange difference, if any, be accounted for in the consolidated financial statements?

Solution

At year-end, S should restate its accounts payable to EURO 220, recognising a loss of Euro 20 in its profit or loss. Thus, in the books of S, the balance payable to P will appear at EURO 220 while in the books of P the balance receivable from S will be USD 100.

For consolidation purposes, the assets and liabilities of S will be translated to USD at the closing rate.

At the time of consolidation, USD 100 which will get eliminated against the receivable in the books of P but the exchange loss of EURO 20 recorded in the subsidiary’s statement of profit or loss has no equivalent gain in the parent’s financial statements. Therefore, exchange loss of EURO 20 will remain in the consolidated statement of profit or loss.

The reason for this is that the intra-group balance represents a commitment to translate Euro into USD and this is similar to holding a foreign currency asset in the books of the parent company. i.e. the subsidiary would be required to buy USD to settle the obligation to the parent, so the Group has an exposure to foreign currency risk.

*****

Illustration 8

M Ltd is engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd, which is engaged in the business of pharmaceuticals. G Ltd purchases the pharmaceutical bottles from its parent company. The demand of G Ltd is very high and the operations of M Ltd are very large and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices.

M Ltd sold pharmaceuticals bottles to G Ltd for Euro 12 lacs on 1st February, 20X1. The cost of these bottles was ₹ 830 lacs in the books of M Ltd at the time of sale. At the year-end i.e. 31st March, 20X1, all these bottles were lying as closing stock with G Ltd. What should be the accounting treatment for the above?

Following additional information is available:

Exchange rate on 1st February, 20X1

| 1 Euro = ₹ 83 |

Exchange rate on 31st March, 20X1

| 1 Euro = ₹ 85 |
Solution

Accounting treatment in the books of M Ltd

M Ltd will recognize sales of ₹996 lacs (12 lacs Euro X 83)

Profit on sale of inventory = 996 lacs – 830 lacs = ₹166 lacs.

Accounting treatment in the books of G Ltd

G Ltd will recognize inventory on 1st February, 20X1 of Euro 12 lacs which will also be its closing stock at year end.

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above mentioned sale / purchase between M Ltd and G Ltd will get eliminated.

The closing stock of G Ltd will be translated at year end resulting in amount of closing stock of ₹1,020 lacs (12 lacs Euro X 85).

The restated amount of closing stock includes three components –
- Restated amount of cost of inventory for ₹850 lacs
- Profit element of ₹166 lacs; and
- Translated amount of profit element of ₹4 lacs.

At the time of consolidation, the two elements amounting to ₹170 lacs will be eliminated from the closing stock.

*****

2.9 GOODWILL AND FAIR VALUE ADJUSTMENTS ARISING FROM A BUSINESS COMBINATION

- Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on a foreign operation’s acquisition are treated as assets and liabilities of the foreign operation.
- Hence they are expressed in the functional currency of the foreign operation and should be translated at the closing exchange rate as is the case for other assets and liabilities.

2.10 DISPOSAL OR PARTIAL DISPOSAL OF FOREIGN OPERATIONS

2.10.1 Full Disposal

- A disposal may arise, for example, through sale, liquidation or repayment of share capital. On disposal of the foreign operation, the cumulative exchange differences relating to that
foreign operation recognised in other comprehensive income and accumulated in equity are reclassified from equity to profit or loss (reclassification adjustment) when the gain or loss on disposal is recognised.

- On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences related to that foreign operation that have been attributed to the non-controlling interests is derecognised, but it is not reclassified to profit or loss.

- In addition to the disposal of an entity’s entire interest in a foreign operation, the following partial disposals are accounted for as disposals:
  - when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, regardless of whether the entity retains a non-controlling interest (NCI) in its former subsidiary after the partial disposal; and
  - when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

**Example**

Parent P owns 100 percent of foreign subsidiary S. P sells 70 percent of its investment and loses control of S. The entire balance in the foreign currency translation reserve in respect of S is reclassified to profit or loss.

### 2.10.2 Partial Disposal

A partial disposal of an entity’s interest in a foreign operation is any reduction in an entity’s ownership interest in a foreign operation, except for those reductions that are accounted for as disposals.

In the case of the partial disposal of a subsidiary that includes a foreign operation, the entity reattributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the NCI in that foreign operation.

In any other partial disposal of a foreign operation, the entity reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

**Example**

Parent P owns 100 percent of foreign subsidiary S. P sells 10 percent of its investment and retains control over S. Therefore, 10 percent of the balance in the foreign currency translation reserve is reclassified to NCI.

**Example**

Parent P owns 35 percent of foreign associate B. P sells a 5 percent stake and retains significant influence over B. Therefore, one-seventh (5/35) of the balance in the foreign currency translation reserve is reclassified to profit or loss.
A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

### 2.11 TAX EFFECT OF ALL EXCHANGE DIFFERENCES

Ind AS 12, Income Taxes, applies to tax effects of gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency.

### 2.12 DISCLOSURES

Ind AS 21 requires the following disclosures:

(a) amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 109;

(b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, along with the reconciliation of the amount at the beginning and end of the period;

(c) when the presentation currency is different from the functional currency - that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency;

(d) in case of change in functional currency of either the reporting entity or a significant foreign operation:
   (i) fact of such change;
   (ii) reason for the change and;
   (iii) date of change in functional currency;

(e) if presentation currency is different from functional currency, the financial statements can be described as complying with Ind AS only if all Ind AS including the translation method of this Standard is complied with.

However, if an entity presents its financial statements or supplementary financial information in a currency other than its functional or presentation currency:

(i) the information should be clearly identified as supplementary information to distinguish it from the information that complies with Ind AS;

(ii) the currency in which the supplementary information is displayed should be disclosed; and
(iii) the entity’s functional currency and the method of translation used to determine the supplementary information should be disclosed.

### 2.13 SIGNIFICANT DIFFERENCES IN IND AS 21 VIS-À-VIS AS 11

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Ind AS 21</th>
<th>AS 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Forward Exchange Contracts and other similar Financial Instruments</strong></td>
<td>Excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with Ind AS 109.</td>
<td>Includes accounting for such contracts.</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Exchange Differences arising on Translation of Certain Long-term Monetary Items from Foreign Currency to Functional Currency</strong></td>
<td>Ind AS 21 does not apply to long-term foreign currency monetary items recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP, i.e. AS 11. However, as provided in Ind AS 101, such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.</td>
<td>AS 11, gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of fixed assets. Where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognised as part of the cost of the fixed assets.</td>
</tr>
<tr>
<td>3.</td>
<td><strong>Approach for Translation</strong></td>
<td>Ind AS 21 is based on the functional currency approach. However, in Ind AS 21, the factors to be considered in determining an entity’s functional currency are similar to the indicators in AS 11 to determine the foreign operations as non-integral foreign operations.</td>
<td>AS 11 is based on integral foreign operations and non-integral foreign operations approach for accounting of a foreign operation.</td>
</tr>
</tbody>
</table>
As a result, despite the difference in the term, there are no substantive differences in respect of accounting of a foreign operation.

<table>
<thead>
<tr>
<th></th>
<th>Presentation Currency</th>
<th>As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard.</th>
<th>AS 11 is silent on it.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td><strong>Presentation Currency</strong></td>
<td>As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard.</td>
<td>AS 11 is silent on it.</td>
</tr>
</tbody>
</table>
TEST YOUR KNOWLEDGE

Questions

1. Parent P acquired 90 percent of subsidiary S some years ago. P now sells its entire investment in S for ₹ 1,500 lakhs. The net assets of S are 1,000 and the NCI in S is ₹ 100 lakhs. The cumulative exchange differences that have arisen during P’s ownership are gains of ₹ 200 lakhs, resulting in P’s foreign currency translation reserve in respect of S having a credit balance of ₹ 180 lakhs, while the cumulative amount of exchange differences that have been attributed to the NCI is ₹ 20 lakhs.

   Calculate P’s gain on disposal in its consolidated financial statements.

2. Entity A, whose functional currency is ₹, has a foreign operation, Entity B, with a Euro functional currency. Entity B issues to A perpetual debt (i.e. it has no maturity) denominated in euros with an annual interest rate of 6 per cent. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros.

   In A’s consolidated financial statements, can the perpetual debt be considered, in accordance with Ind AS 21.15, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of A’s net investment in B), with the exchange gains and losses on the perpetual debt therefore being recorded in equity?

3. Infotech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of Infotech Inc. (L$).

   The following balances appear in the books of of Infotech Global Ltd. at the year-end prior to translation:

   | Property, plant and equipment | 50,000 | USD | 50,000 | L$ |
   | Receivables                   | 9,35,000 | USD | 9,35,000 | L$ |
   | **Total assets**              | **9,85,000** | |
   | Issued capital                | 50,000 | USD | 50,000 | L$ 30,055 |
   | Opening retained earnings     | 28,000 | USD | 28,000 | L$ 15,274 |
   | Profit & Loss A/c (Profit for the year) | 20,000 | USD | 20,000 | L$ |
   | Accounts payable              | 8,40,000 | USD | 8,40,000 | L$ |
   | Accrued liabilities           | 47,000 | USD | 47,000 | L$ |
   | **Total equity and liabilities** | **9,85,000** | |

   Translate the above balances of Infotech Global Ltd. into L$ ready for consolidation by Infotech Inc. (Share capital and opening retained earnings have been pre-populated.)

   Prepare a working of the cumulative balance of the foreign currency translation reserve.
Additional information:
Relevant exchange rates are:
Rate at beginning of the year L$ 1 = USD 1.22
Average rate for the year L$ 1 = USD 1.175
Rate at end of the year L$ 1 = USD 1.13

Answers

1. P’s gain on disposal in its consolidated financial statements would be calculated in the following manner:

<table>
<thead>
<tr>
<th>(₹ in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale proceeds</td>
</tr>
<tr>
<td>Net assets of S</td>
</tr>
<tr>
<td>NCI derecognised</td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
</tr>
<tr>
<td>Gain on disposal</td>
</tr>
</tbody>
</table>

2. Yes, as per Ind AS 21 net investment in a foreign operation is the amount of the reporting entity’s interest in the net assets of that operation.

As per para 15 of Ind AS 21, an entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity’s net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Analysis on the basis of above mentioned guidance

Through the origination of the perpetual debt, A has made a permanent investment in B. The interest payments are treated as interest receivable by A and interest payable by B, not as repayment of the principal debt. Hence, the fact that the interest payments are perpetual does not mean that settlement is planned or likely to occur. The perpetual debt can be considered part of A's net investment in B.

In accordance with para 15 of Ind AS 21, the foreign exchange gains and losses should be recorded in equity at the consolidated level because settlement of that perpetual debt is neither planned nor likely to occur.
3. **Translation of the balances for the purpose of consolidation**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>USD</th>
<th>Rate</th>
<th>L$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>50,000</td>
<td>1.13</td>
<td>44,248</td>
</tr>
<tr>
<td>Receivables</td>
<td>9,35,000</td>
<td>1.13</td>
<td>8,27,434</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>9,85,000</strong></td>
<td></td>
<td><strong>8,71,682</strong></td>
</tr>
<tr>
<td>Issued capital</td>
<td>50,000</td>
<td>—</td>
<td>30,055</td>
</tr>
<tr>
<td>Opening retained earnings</td>
<td>28,000</td>
<td>—</td>
<td>15,274</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>20,000</td>
<td>1.175</td>
<td>17,021</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>8,40,000</td>
<td>1.13</td>
<td>7,43,363</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>47,000</td>
<td>1.13</td>
<td>41,593</td>
</tr>
<tr>
<td><strong>Total equity and liabilities USD</strong></td>
<td><strong>9,85,000</strong></td>
<td></td>
<td><strong>8,47,306</strong></td>
</tr>
<tr>
<td><strong>Foreign Currency Translation Reserve (Refer WN-1)</strong></td>
<td></td>
<td></td>
<td><strong>24,376</strong></td>
</tr>
<tr>
<td><strong>Total equity and liabilities L$</strong></td>
<td></td>
<td></td>
<td><strong>8,71,682</strong></td>
</tr>
</tbody>
</table>

**Working Note**

1. **Cumulative balance of the FCTR**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Actual translated amount in L$</th>
<th>Amount (Refer WN-2)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>B-A</td>
</tr>
<tr>
<td>Issued capital</td>
<td>30,055</td>
<td>44,248</td>
<td>14,193</td>
</tr>
<tr>
<td>Opening retained earnings</td>
<td>15,274</td>
<td>24,779</td>
<td>9,505</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>17,021</td>
<td>17,699</td>
<td>678</td>
</tr>
<tr>
<td></td>
<td><strong>62,350</strong></td>
<td><strong>86,726</strong></td>
<td><strong>24,376</strong></td>
</tr>
</tbody>
</table>

2. **Translated amount if the same conversion rate is applied to following items as applied on other items**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Translated amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued capital</td>
<td>50,000 1.13 44,248</td>
</tr>
<tr>
<td>Opening retained earnings</td>
<td>28,000 1.13 24,779</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>20,000 1.13 17,699</td>
</tr>
<tr>
<td></td>
<td><strong>98,000</strong></td>
</tr>
</tbody>
</table>